Iluvatar CoreX (9903 HK)

Trust the process; 2H26 ramp ahead

Iluvatar CoreX delivered 1H26 revenue of RMB945.7mn (+191.6% YoY/+33.3% HoH). GPM fell to 17.2% from 50.1% in 1H25 due to below-cost semiconductor component sales and an inventory write-down. Adding back the component gross loss and write-down, adjusted GPM was ~43%, broadly in line with the GPGPU segment's 43.9%, but below 50.3%/57.0% in 1H25/2H25 due to a heavier inference mix. Net profit of RMB106mn included RMB760mn of fair-value gains on financial assets. We cut FY26E/FY27E GPM by 16.1ppt/0.9ppt to reflect the 1H26 gross component loss and inventory write-down, as well as a more conservative product mix thereafter. **Maintain BUY with TP adjusted to HK$872 from HK$878, based on unchanged 25.8x 2027E P/S, slightly higher than its peers' average of 21.2x as we see the Company's volume delivery capability as a key competitive advantage.**

- **Inference drove GPGPU growth but diluted the segment GPM.** GPGPU revenue rose 231.0% YoY/41.8% HoH to RMB916.1mn, accounting for 96.9% of total revenue. Training revenue increased 38.0% YoY but fell 33.5% HoH to RMB261.9mn, while inference revenue surged 651.8% YoY/159.7% HoH to RMB654.2mn, or 69.2% of total revenue. AI computing solution revenue declined 68.1% YoY to RMB13.6mn. Although training/inference GPM improved YoY to 64.5%/35.6% from 58.6%/32.4% in 1H25, respectively, the heavier inference mix reduced blended GPGPU GPM to 43.9% from 50.3% in 1H25. Overall GPM was further reduced to 17.2% by an RMB171.0mn semiconductor component gross loss and an RMB72.2mn inventory write-down. Adding back both, adjusted GPM was ~43%. We expect the core GPGPU segment's GPM to remain broadly stable in 2H26 comparing to 1H.
- **Positioned for a 2H sales ramp.** 1H26 revenue represents 33% of our FY26E forecast of RMB2.84bn, vs. 31.4% of FY25 sales in 1H25, consistent with FY25's 2H weighting seasonality. Inventory rose 177% from end-FY25 to RMB1.97bn; current prepayments, other receivables and other assets increased 208% to RMB1.94bn; and trade payables expanded from RMB31mn to RMB827mn. The working-capital build suggests accelerated component procurement and production preparation ahead of deliveries. The key execution indicator will be the conversion of inventories and prepayments into shipments and revenue.
- **Maintain BUY with TP adjusted to HK$872.** We remain constructive on China's domestic compute players, supported by compute infrastructure localization, improving performance of domestically designed silicon and robust AI compute demand. **Key risks** include supply-chain disruptions, weaker-than-expected demand, R&D or product-development setbacks, slower inventory conversion, etc.

Earnings Summary

(YE 31 Dec)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue (RMB mn)	540	1,034	2,844	7,600	12,998
YoY growth (%)	86.7	91.6	175.2	167.2	71.0
Gross margin (%)	49.1	54.0	32.1	48.6	48.4
Net profit (RMB mn)	(892.4)	(1,003.7)	(328.7)	920.9	2,429.9
YoY growth (%)	na	na	na	na	163.9
EPS (Reported) (RMB cents)	(464.00)	(531.00)	(136.07)	381.22	1,005.89
P/S (x)	165.9	86.6	31.5	11.8	6.9
P/E (x)	ns	ns	ns	87.3	33.1

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	**HK$872.00**
(Previous TP	HK$878.00)
Up/Downside	**124.6%**
Current Price	**HK$388.20**

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Stock Data

Mkt Cap (HK$ mn)	104,425.8
Avg 3 mths t/o (HK$ mn)	1,227.3
52w High/Low (HK$)	NA/NA
Total Issued Shares (mn)	269.0

Source: FactSet

Shareholding Structure

Centurium	7.0%
Nanjing Youxu Equity Inv Partner	6.4%

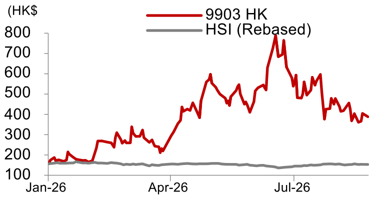
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-8.7%	-7.6%
3-mth	-22.4%	-23.6%
6-mth	25.2%	30.4%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

	New			Old			Diff.		
RMBmn	**FY26E**	**FY27E**	**FY28E**	**FY26E**	**FY27E**	**FY28E**	**FY26E**	**FY27E**	**FY28E**
Revenue	2,844	7,600	12,998	2,867	7,646	13,199	-0.8%	-0.6%	-1.5%
Gross profit	912	3,691	6,297	1,382	3,785	6,586	-34%	-2%	-4%
Net profit	-329	921	2,430	-691	764	2,477	52%	21%	-2%
EPS (RMB)	-1.36	3.81	10.06	-2.64	2.92	9.48	49%	30%	6%
Gross margin	32.1%	48.6%	48.4%	48.2%	49.5%	49.9%	-16.1 ppt	-0.9 ppt	-1.5 ppt
Net margin	-11.6%	12.1%	18.7%	-24.1%	10.0%	18.8%	12.5 ppt	2.1 ppt	-0.1 ppt

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs. BBG consensus

	CMBIGM			BBG Consensus			Diff.		
RMBmn	**FY26E**	**FY27E**	**FY28E**	**FY26E**	**FY27E**	**FY28E**	**FY26E**	**FY27E**	**FY28E**
Revenue	2,844	7,600	12,998	3,057	8,513	12,587	-7%	-11%	3%
Gross profit	912	3,691	6,297	1,086	4,406	6,784	-16%	-16%	-7%
Net profit	-329	921	2,430	-427	1,370	2,840	23%	-33%	-14%
EPS (RMB)	-1.36	3.81	10.06	-1.46	4.93	10.02	7%	-23%	0%
Gross margin	32.1%	48.6%	48.4%	35.5%	51.8%	53.9%	-3.5 ppt	-3.2 ppt	-5.4 ppt
Net margin	-11.6%	12.1%	18.7%	-14.0%	16.1%	22.6%	2.4 ppt	-4 ppt	-3.9 ppt

Source: Bloomberg consensus, CMBIGM estimates

Figure 3: Peers table

		Mkt Cap	P/S (x)		GPM%	
Company	**Ticker**	**(LC in mn)**	**FY26E**	**FY27E**	**FY26E**	**FY27E**
Biren Tech	6082 HK	96,024	40.0	11.0	51.2	51.8
Hygon	688041 CH	568,417	25.3	17.3	57.5	57.6
Cambricon	688256 CH	665,875	37.7	17.5	54.1	54.4
MetaX	688802 CH	272,908	74.0	38.9	55.7	55.6
	Average		***44.2***	***21.2***	***54.6***	***54.9***

Source: Bloomberg consensus as of 31 Aug.

Financial Summary

INCOME STATEMENT	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Revenue	**289**	**540**	**1,034**	**2,844**	**7,600**	**12,998**
Cost of goods sold	(146)	(274)	(476)	(1,932)	(3,909)	(6,701)
Gross profit	**143**	**265**	**558**	**912**	**3,691**	**6,297**
Operating expenses	**(926)**	**(1,107)**	**(1,511)**	**(1,047)**	**(2,653)**	**(3,286)**
Selling expense	(88)	(122)	(152)	(228)	(342)	(455)
Admin expense	(242)	(257)	(482)	(569)	(760)	(1,040)
R&D expense	(616)	(773)	(974)	(1,195)	(1,702)	(1,950)
Others	20	45	97	945	152	159
Operating profit	**(783)**	**(842)**	**(953)**	**(134)**	**1,038**	**3,012**
Other income	(35)	(50)	(51)	(194)	(117)	(153)
EBIT	**(817)**	**(892)**	**(1,004)**	**(329)**	**921**	**2,859**
Income tax	0	0	0	0	0	(429)
After tax profit	**(817)**	**(892)**	**(1,004)**	**(329)**	**921**	**2,430**
Minority interest	(26)	0	0	0	0	0
Net profit	**(791)**	**(892)**	**(1,004)**	**(329)**	**921**	**2,430**

BALANCE SHEET	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Current assets	**1,287**	**1,262**	**3,432**	**12,973**	**15,334**	**19,192**
Cash & equivalents	308	314	1,505	6,197	5,717	8,843
Restricted cash	0	0	0	0	0	0
Account receivables	200	377	577	1,605	3,392	3,730
Inventories	233	343	710	2,467	2,888	2,619
Prepayment	339	203	630	1,663	2,037	2,624
Financial assets at FVTPL	0	0	0	856	856	856
Other current assets	207	26	11	185	444	519
Non-current assets	**306**	**423**	**480**	**838**	**1,589**	**2,607**
PP&E	106	128	188	303	705	1,357
Right-of-use assets	9	41	10	49	143	276
Intangibles	75	141	190	261	498	684
Financial assets at FVTPL	91	97	76	81	81	81
Other non-current assets	26	17	16	145	163	210
Total assets	**1,593**	**1,685**	**3,912**	**13,811**	**16,923**	**21,799**
Current liabilities	**686**	**880**	**1,112**	**3,091**	**4,483**	**6,525**
Short-term borrowings	492	566	644	1,200	1,200	1,200
Account payables	18	46	31	869	952	2,169
Other current liabilities	159	222	304	930	1,862	2,551
Lease liabilities	4	18	7	12	181	233
Contract liabilities	14	29	127	81	289	372
Non-current liabilities	**28**	**117**	**446**	**1,646**	**1,917**	**2,002**
Long-term borrowings	0	42	365	1,500	1,500	1,500
Other non-current liabilities	28	75	81	146	417	502
Total liabilities	**715**	**997**	**1,559**	**4,738**	**6,400**	**8,527**
Share capital	186	194	229	269	269	269
Other reserves	692	495	2,124	8,805	10,254	13,003
Total shareholders equity	**878**	**689**	**2,353**	**9,074**	**10,524**	**13,272**
Total equity and liabilities	**1,593**	**1,685**	**3,912**	**13,811**	**16,923**	**21,799**

CASH FLOW	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	**(817)**	**(892)**	**(1,004)**	**(329)**	**921**	**2,859**
Depreciation & amortization	118	145	159	236	410	713
Change in working capital	(264)	(169)	(856)	(2,447)	(2,267)	1,296
Others	256	298	540	364	1,358	(81)
Net cash from operations	**(707)**	**(618)**	**(1,162)**	**(2,175)**	**421**	**4,787**
Investing						
Capital expenditure	(71)	(85)	(103)	(228)	(608)	(1,040)
Others	(83)	(81)	(30)	(1,083)	(532)	(650)
Net cash from investing	**(153)**	**(166)**	**(132)**	**(1,311)**	**(1,140)**	**(1,690)**
Financing						
Net borrowings	340	116	401	1,691	0	0
Proceeds from share issues	565	728	2,149	6,500	0	0
Others	42	(54)	(59)	7	238	30
Net cash from financing	**946**	**789**	**2,491**	**8,198**	**238**	**30**
Net change in cash						
Cash at the beginning of the year	219	308	314	1,505	6,197	5,717
Exchange difference	3	0	(6)	(20)	0	0
Cash at the end of the year	**308**	**314**	**1,505**	**6,197**	**5,717**	**8,843**

GROWTH	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Revenue	52.6%	86.7%	91.6%	175.2%	167.2%	71.0%
Gross profit	27.3%	85.2%	110.5%	63.5%	304.7%	70.6%
Operating profit	na	na	na	na	na	190.1%
EBIT	na	na	na	na	na	210.4%
Net profit	na	na	na	na	na	163.9%

PROFITABILITY	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Gross profit margin	49.5%	49.1%	54.0%	32.1%	48.6%	48.4%
Operating margin	(270.9%)	(156.1%)	(92.2%)	(4.7%)	13.7%	23.2%
Return on equity (ROE)	(105.6%)	(113.9%)	(66.0%)	(5.8%)	9.4%	20.4%

GEARING/LIQUIDITY/ACTIVITIES	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Current ratio (x)	1.9	1.4	3.1	4.2	3.4	2.9

VALUATION	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
P/E	ns	ns	ns	ns	87.3	33.1

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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